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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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For The Nation's Workers . . .

Since labor costs account for more than two-thirds of business operating costs, one of the most important assumptions that companies make in their corporate plans involves the future labor climate. Now that the third year of economic recovery is underway and the unemployment rate has retreated by more than three percentage points from its most recent peak, should business expect labor to flex its muscle and try to regain ground lost over the past three or four years? Or will modest wage increases, with job security remaining the top priority, continue to be labor's objective?

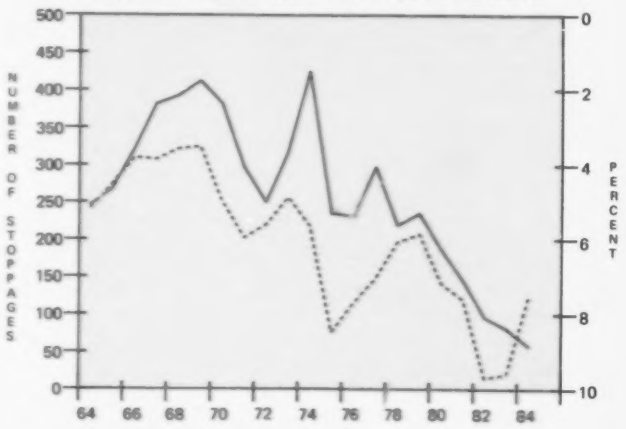
Indications are that while incidences of pay concessions may be less frequent, it is a good bet that most workers will not be winning major pay hikes, either. Expectations of the inflation rate staying firmly under control and of corporations' need to contain costs in the face of deregulation of many industries and growing inroads by foreign producers should once again act as a brake on wage gains this year. What is more, labor probably realizes that boosting wages and benefits much higher could eliminate many jobs—by driving some production out of the country, stepping up automation or forcing some companies out of business. And with the unemployment rate still at a relatively high level of 7.4 percent of the labor force, workers seem more ready to accept smaller wage hikes than ever before. In 1984, strike activity fell to the lowest level on record. The Bureau of Labor Statistics (BLS) reports that last year there were only 58 major work stoppages involving a total of 363,000 workers. This was down from 81 incidents in 1983 and 235 as recently as in 1979 (see chart).

. . . It Will Be Another Year . . .

Last year's relatively modest settlement between the United Auto Workers and two major car manufacturers will probably have some influence on this year's negotiations. Job security seemed to be the union's primary goal as the contract provided sizable funds to assist displaced workers, while calling for a wage increase of only 2¼ percent in the first year and lump sum payments of 2¼ percent in the second and third years of the contract. Workers will also receive cost-of-living adjustments.

However, the auto industry is in much better shape than most of the industries scheduled to bargain in 1985. Sales of domestic autos and trucks soared more than 20 percent in 1984 from year-earlier levels, swelling payrolls to a five-year high and enabling the Big Three auto producers to post healthy profit gains.

NUMBER OF WORK STOPPAGES INVOLVING 1,000 WORKERS OR MORE (LINE) VS. CIVILIAN UNEMPLOYMENT RATE – INVERTED SCALE (DOT)



On the other hand, the trucking industry, where negotiations will take place next month, has been devastated over the past four years by deregulation, higher taxes, rising road fees and shipping rate wars. Since 1980, when the Motor Carrier Act created almost unrestricted competition by allowing newcomers to enter the business easily, nearly 300 companies have failed. The new nonunion companies offer lower haul rates and pay smaller wages. Similarly, the unemployment rate in the apparel industry has come down recently, but there are still 100,000 fewer workers employed in the industry now than there were five years ago. The most important threat to the industry has been stiff foreign competition. Apparel imports have been rising faster than domestic sales, and now are estimated to represent more than 50 percent of the domestic market. Other industries which will negotiate new contracts this year include construction, rubber, electrical products, meatpacking and the last of the Big Three auto producers.

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After three years of heavy activity, this year's bargaining calendar in private industry will be relatively light. The traditional cycle of two years of heavy activity followed by a third year of lighter activity, which had existed since the mid-1950s, was broken in 1982. Then, contracts between the United Auto Workers and two major car manufacturers were negotiated before their expiration for a 2½-year period rather than the typical three-year duration.

Despite the robust pace of economic activity in 1984, last year's major collective bargaining settlements called for pay increases of only 2.3 percent annually over the life of the contracts. This was less than half the average wage hike the same unions received the last time they bargained, generally two to three years earlier. In fact, wages will go up by less than at any time since the BLS started keeping track. While three quarters won wage increases in the first year averaging 3.8 percent, the rest agreed to either wage freezes or pay cuts.

Construction workers, who in the past often received the steepest pay hikes, fared the worst last year. On balance, they received practically no increase at all in the first contract year, with many settling for sharp pay reductions. It seems that the inflation-adjusted 31 percent increase in residential and nonresidential construction spending did not strengthen construction workers' bargaining position at all. This is because union contractors have been

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	2/6/85		
U.S. Gov'ts and Agencies Owned Outright & RPs	164.787	– .949	+ 8.051
Loans to Depository Inst.	1.642	+ .475	+ 1.283
Float	1.467	+ .590	+ .674
Total Reserve Bank Credit	180.162	+ .261	+13.325
Treasury Deposits with Federal Reserve Banks	5.015	+ .069	+ .305
Currency in Circulation	177.666	+ .357	+10.728
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.854	– 1.002	+ 3.447
	1/30/85		
Member Bank Reserves:			
Total Reserves Held	39.940	– 1.492	+ 2.334
Excess (Deficiency)	.761	+ .126	+ .258
Net Free Reserves	.307	– .115	+ .369

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (1/28/85)	559.6	+ 10.4‡	+ 5.5‡
M2 (December '84)	2,376.3	+ 12.3	+ 8.2
M3 (December '84)	2,989.3	+ 13.5	+ 10.3
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 2/8/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.25%	8.35%	8.50%
* Federal Agencies	8.15	8.50	9.15
* Project Notes–Taxfree (46% Taxable Equivalent)	7.87	8.33	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.75	9.00	9.80

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.50%	Mar.	8.65%
15- 29 days	8.50	Apr.	8.65
30- 59 days	8.50	May	8.65
60- 89 days	8.50	Jun.	8.70
90-179 days	8.50	Jul.	8.75
180-239 days	8.50	Aug.	8.75
240-270 days	8.50		

‡Industrial Paper–Prime			
30- 89 days	8.40%	†Federal Funds Effective Rate	8.50%
90-120 days	8.40		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,753	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,661	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	3.9	1.6	5.9
Change in Consumer Prices*	Dec '84	2.4%	2.4%	2.4%
Change in Producer Prices*	Dec '84	1.2%	6.0%	2.4%
Civilian Employment (Thousands of Persons)†	Jan '85	106,391	106,273	103,294
Unemployment as % of Civilian Labor Force†	Jan '85	7.4%	7.2%	8.0%
Personal Income*	Dec '84	$ 3,118	$ 3,102	$ 2,860
Leading Indicators Composite Index (1967=100)†	Dec '84	164.9	165.2	163.4
Industrial Production Index (1967=100) †	Dec '84	166.2	165.2	156.2
Net Change in Consumer Installment Credit †	Nov '84	$ 7.95	$ 6.28	$ 4.82
U.S. Merchandise Trade Balance †	Dec '84	–$ 8.20	–$ 9.94	–$ 6.74
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Dec '84	1,587	1,554	1,694
New Construction Expenditures*	Dec '84	$ 318.7	$ 316.0	$ 263.9
Total Business Inventories †	Nov '84	$ 564.2	$ 563.8	$ 511.5
Total Business Sales †	Nov '84	$ 415.0	$ 410.6	$ 386.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

faced with intensifying competition from nonunion firms which have lower pay scales, offer fewer benefits and have less restrictive work practices.

. . . Of Modest Wage Increases

The deceleration in wage increases has not been confined only to union pay. It has occurred in the nonunion sector as well. After reaching a peak in early 1981—at nearly nine percent, year-over-year—nonunion wage increases shrank to 4½ percent in the second half of 1984. Thus, the overall rise in average compensation (which includes union and nonunion workers) was down nearly two-thirds in 1984 from the peak rate of advance posted in 1980 and was the smallest in nearly 20 years.

When productivity gains are factored in, the picture improves even more. The resulting labor costs per unit of output have risen only 1.9 percent since the end of the recession. This represents less than half the average rise posted in the first two years of recovery of those earlier postwar business expansions which lasted this long. Improvements in labor efficiency may represent more than just a cyclical revival. Corporate spending on durable equipment jumped 21.7 percent last year, after adjusting for inflation, exceeding all annual gains since 1947. In addition, new regulatory restraints seem to be coming on more slowly, while the baby boomers are maturing and are no longer the inexperienced teenagers they were in the 1970s. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/23/85)	157,524	– 390	+13,788
New York City (1/30/85)	33,760	– 541	+ 5,400
Commercial Paper (1/30/85)	241,949	+ 2,078	+56,326

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/23/85)	249,551	– 1,613	+ 27,351
New York City (1/30/85)	61,595	– 202	+ 3,793

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/23/85)	652,050	– 4,900	+ 74,780
New York City (1/30/85)	140,084	– 1,071	+ 8,679

Financial Markets

	Friday 2/8/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.49%	+ .39	– .91
180-Day Bills†	8.76	+ .29	– .96
Longest Bills†	9.12	+ .18	– .78
Recent Issues:			
9³/₄s 1/31/87	10.00	+ .20	
10⁵/₈s 12/31/88	10.75	+ .55	
11¹/₄s 2/15/95 (When Issued)	11.36	NA	
11¹/₄s 2/15/15 (When Issued)	11.26	NA	
Municipals:			
Bond Buyer–20 Bond Index* (2/7/85)	9.52%	+ .15	– .04
Blue List Total ($ Million)	$1,623	+ $141	+ $127
30-Day Visible Supply ($ Million)	$2,862	– $534	+ $568
Total	$4,485	– $393	+ $695
Corporates:			
Moody's Aa Composite (2/7/85)	12.40%	+ .11	– .18
30-Day Visible Supply ($ Million)	$ 445	+ $160	– $592
Stocks:			
Dow-Jones Averages:			
Industrials	1,289.97	+ 12.25	+ 129.27
Transportation	630.09	+ 20.15	+ 115.54
Utilities	150.80	+ 2.15	+ 23.63
65 Stocks	525.70	+ 8.40	+ 68.79
Standard and Poor's 500 Stocks	182.19	+ 3.29	+ 25.89
N.Y.S.E. Composite Index	105.39	+ 2.16	+ 15.32
N.Y.S.E. Avg. Daily Vol. for Week (000's)	133,470	+ 2,918	+ 26,546

* 46% Taxable equivalent 17.63%.

† Bond equivalent.

International Rates

	Friday 2/8/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.44%	8.50%
1 month	8.75	8.56
3 month	9.13	8.81
6 month	9.44	9.00
1 year	10.13	9.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.25%	11.20%
Long Term (7 to 15 yrs.)	11.50	11.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/8/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01539	64.9850
Canada	.7487	1.3356
Denmark	.08641	11.5730
France	.1011	9.8950
Germany	.3084	3.2425
Italy	.0005018	1993.00
Japan	.003837	260.65
Mexico	.004329	231.00
Netherlands	.2725	3.6703
Switzerland	.3619	2.7631
U.K.	1.1175	.8949

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